

105TH CONGRESS  
1ST SESSION

# H. R. 1648

To encourage production of oil and gas within the United States by providing tax incentives, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

MAY 15, 1997

Mr. WATKINS introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To encourage production of oil and gas within the United States by providing tax incentives, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “National Energy Secu-  
5       rity Act of 1997”.

6       **SEC. 2. ELIMINATION OF NET INCOME LIMITATION ON PER-**  
7       **CENTAGE DEPLETION FOR OIL AND GAS.**

8       (a) **ELIMINATION.**—

9               (1) **IN GENERAL.**—Section 613A(d)(1) of the  
10       Internal Revenue Code of 1986 (relating to the limi-

1       tation based on taxable income for percentage deple-  
2       tion in the case of oil and gas wells) is repealed.

3           (2) OTHER PRODUCTION.—The second sentence  
4       of section 613(a) of the Internal Revenue Code of  
5       1986 (relating to percentage depletion) is amended  
6       to read as follows: “Except in the case of oil and gas  
7       wells, such allowance shall not exceed 50 percent of  
8       the taxpayer’s taxable income from the property  
9       (computed without allowance for depletion).”

10       (b) EFFECTIVE DATE.—

11           (1) IN GENERAL.—The amendments made by  
12       this section shall apply to taxable years beginning  
13       after December 31, 1997.

14           (2) TRANSITION RULE.—

15           (A) DEDUCTION.—To the extent a deduc-  
16       tion under section 613A of the Internal Reve-  
17       nue Code of 1986 is disallowed under sub-  
18       section (d)(1) of such section for any taxable  
19       year ending on or before December 31, 1997,  
20       the amount so disallowed shall be treated under  
21       subsection (c) of such section as an amount al-  
22       lowable as a deduction ratably over the 5-year  
23       period beginning with the first taxable year be-  
24       ginning after December 31, 1997.

1 (B) CERTAIN ADJUSTMENTS.—The last  
 2 sentence of subsection (d)(1) of section 613A of  
 3 such Code, as in effect immediately before the  
 4 repeal made by subsection (a)(1) of this section,  
 5 shall apply with respect to amounts allowable as  
 6 a deduction under subsection (c) of such section  
 7 by reason of subparagraph (A) of this para-  
 8 graph.

9 **SEC. 3. HYDRO INJECTION INCLUDED AS TERTIARY RECOV-**  
 10 **ERY METHOD.**

11 (a) IN GENERAL.—Paragraph (2) of section 43(c) of  
 12 the Internal Revenue Code of 1986 is amended by adding  
 13 at the end the following new subparagraph:

14 “(C) TERTIARY RECOVERY METHOD.—For  
 15 purposes of subparagraph (A), the term ‘ter-  
 16 tiary recovery method’ shall include hydro injec-  
 17 tion.”

18 (b) EFFECTIVE DATE.—The amendment made by  
 19 subsection (a) shall apply with respect to injections com-  
 20 mencing after December 31, 1997.

21 **SEC. 4. ELECTION TO EXPENSE GEOLOGICAL AND GEO-**  
 22 **PHYSICAL EXPENDITURES.**

23 (a) IN GENERAL.—Section 263 of the Internal Reve-  
 24 nue Code of 1986 (relating to capital expenditures) is

1 amended by adding at the end the following new sub-  
 2 section:

3       “(j) GEOLOGICAL AND GEOPHYSICAL EXPENDI-  
 4 TURES FOR DOMESTIC OIL AND GAS WELLS.—Notwith-  
 5 standing subsection (a), a taxpayer may elect to treat geo-  
 6 logical and geophysical expenses incurred in connection  
 7 with the exploration for, or development of, oil or gas with-  
 8 in the United States (as defined in section 638) as ex-  
 9 penses which are not chargeable to capital account. Any  
 10 expenses so treated shall be allowed as a deduction in the  
 11 taxable year in which paid or incurred.”

12       (b) CONFORMING AMENDMENT.—Section 263A(c)(3)  
 13 of the Internal Revenue Code of 1986 is amended by in-  
 14 serting “263(j),” after “263(i),”.

15       (c) EFFECTIVE DATE.—

16           (1) IN GENERAL.—The amendments made by  
 17 this section shall apply to expenses paid or incurred  
 18 after the date of enactment of this Act.

19           (2) TRANSITION RULE.—In the case of any ex-  
 20 penses described in section 263(j) of the Internal  
 21 Revenue Code of 1986, as added by this section,  
 22 which were paid or incurred on or before the date  
 23 of enactment of this Act, the taxpayer may elect, at  
 24 such time and in such manner as the Secretary of  
 25 the Treasury may prescribe, to amortize the

1 unamortized portion of such expenses over the 36-  
2 month period beginning with the month in which the  
3 date of enactment of this Act occurs. For purposes  
4 of this paragraph, the unamortized portion of any  
5 expense is the amount remaining unamortized as of  
6 the first day of the 36-month period.

7 **SEC. 5. ELECTION TO EXPENSE DELAY RENTAL PAYMENTS.**

8 (a) IN GENERAL.—Section 263 of the Internal Reve-  
9 nue Code of 1986 (relating to capital expenditures), as  
10 amended by section 1(a), is amended by adding at the end  
11 the following new subsection:

12 “(k) DELAY RENTAL PAYMENTS FOR DOMESTIC OIL  
13 AND GAS WELLS.—

14 “(1) IN GENERAL.—Notwithstanding subsection  
15 (a), a taxpayer may elect to treat delay rental pay-  
16 ments incurred in connection with the development  
17 of oil or gas within the United States (as defined in  
18 section 638) as payments which are not chargeable  
19 to capital account. Any payments so treated shall be  
20 allowed as a deduction in the taxable year in which  
21 paid or incurred.

22 “(2) DELAY RENTAL PAYMENTS.—For purposes  
23 of paragraph (1), the term ‘delay rental payment’  
24 means an amount paid for the privilege of deferring  
25 development of an oil or gas well.”

1 (b) CONFORMING AMENDMENT.—Section 263A(c)(3)  
2 of the Internal Revenue Code of 1986, as amended by sec-  
3 tion 1(b), is amended by inserting “263(k),” after  
4 “263(j),”.

5 (c) EFFECTIVE DATE.—

6 (1) IN GENERAL.—The amendments made by  
7 this section shall apply to payments made or in-  
8 curred after the date of enactment of this Act.

9 (2) TRANSITION RULE.—In the case of any  
10 payments described in section 263(k) of the Internal  
11 Revenue Code of 1986, as added by this section,  
12 which were made or incurred on or before the date  
13 of enactment of this Act, the taxpayer may elect, at  
14 such time and in such manner as the Secretary of  
15 the Treasury may prescribe, to amortize the  
16 unamortized portion of such payments over the 36-  
17 month period beginning with the month in which the  
18 date of enactment of this Act occurs. For purposes  
19 of this paragraph, the unamortized portion of any  
20 payment is the amount remaining unamortized as of  
21 the first day of the 36-month period.

22 **SEC. 6. EXTENSION OF SPUDDING RULE.**

23 (a) IN GENERAL.—Section 461(i)(2)(A) of the Inter-  
24 nal Revenue Code of 1986 (relating to special rule for

1   spudding of oil or gas wells) is amended by striking “90th  
2   day” and inserting “180th day”.

3           (b) EFFECTIVE DATE.—The amendment made by  
4   this section shall apply to taxable years beginning after  
5   December 31, 1997.

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